

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 PA-01 PRS-01 USIA-06 TRSE-00

FRB-03 XMB-02 OPIC-03 AID-05 /039 W

----- 081843

R 042015Z AUG 75

FM AMCONSUL SAO PAULO

TO USDOC WASHDC

INFO SECSTATE WASHDC 6367

AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

LIMITED OFFICIAL USE SAO PAULO 1606

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: MECANICA '75 - EXPORT FINANCING UNDER BRAZILIAN CENTRAL
BANK RESOLUTION 331

REF: (A) SAO PAULO 1565; (B) BRASILIA 5970

1. THE FOLLOWING INFORMATION PROVIDED US BY U.S. BANKING
SOURCE HERE SEEMS TO OFFER ONE MORE POTENTIAL OPTION FOR
FINANCING EXHIBIT SALES DURING MECANICA 75:

2. BANK OF AMERICA SAO PAULO REPRESENTATIVE TOLD US
JULY 30 THAT CENTRAL BANK RESOLUTION 331 WOULD BE A BOON
TO HIS BUSINESS. HE SEES THE MEDIUM TERM LOAN OF 370 DAYS
AS AN EXCELLENT ALTERNATIVE TO LOANS MADE UNDER DECREE LAW 4131
WITH THEIR FIVE YEAR MINIMUMS. BECAUSE HIS ANALYSIS SEEMS TO OPEN
A NEW AVENUE TO CREDIT FOR BRAZILIAN IMPORTERS WHO HAVE
BEEN COMPLAINING SO LOUDLY ABOUT THE ADVERSE AFFECT OF
RESOLUTION 331, WE CHECKED WITH COMMERCIAL BANKS HERE TO
DETERMINE IF, IN FACT, HIS INTERPRETATION DOES OFFER A NEW
OPPORTUNITY FOR U.S. EXPORT SALES.

4. WE FOUND THAT WITHIN THE FRAME WORK OF RESOLUTION 331,
A BRAZILIAN IMPORTER MAY GO TO A COMMERCIAL BANK HERE
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AND REQUEST A LOAN GUARANTEE FOR A LOAN FROM AN AMERICAN

BANK TO COVER THE COST OF THE IMPORT. THE LOCAL COMMERCIAL BANK, ASSUMING THE BRAZILIAN IMPORTER IS SOLID, WILL CHARGE FOUR PERCENT PER ANNUM FOR A GUARANTEE TO A U.S. BANK. THE U.S. BANK THEN WILL EXTEND THE LOAN AND PAY THE EXPORTER. THE COST TO THE IMPORTER THEREFORE WILL BE THE U.S. RATE OF INTEREST FOR 370 DAYS PLUS THE FOUR PERCENT GUARANTEE COST TO THE LOCAL BRAZILIAN COMMERCIAL BANK. THE BRAZILIAN BANK WILL ALSO REQUIRE THE IMPORTER TO PUT UP COLLATERAL - NOT A DEPOSIT - EQUAL TO ONE HUNDRED AND TWENTY FIVE PERCENT OF THE VALUE OF THE GUARANTEE. THIS COLLATERAL MAY BE ANY MUTUALLY AGREED UPON ASSET, INCLUDING THE IMPORTED ITEM ITSELF.

5. CENTRAL BANK RESOLUTION 91 HAS PROVISION FOR ESSENTIALLY THE SAME TRANSACTION. HOWEVER, UNDER RESOLUTION 91, THE BRAZILIAN IMPORTER WAS NOT PERMITTED TO REMIT INTEREST AT THE END OF THE LOAN TERM. NOW, 331 PERMITS HIM TO REMIT BOTH PRINCIPAL AND INTEREST.

6. UNLESS THERE IS SOME HITCH IN THIS KIND OF TRANSACTION WHICH WE HAVE MISSED, 311 DOES SEEM TO OFFER U.S. BANKS A NEW OPPORTUNITY TO MAKE LOANS IN THE UNITED STATES TO COVER U.S. EXPORT SALES WHICH WAS HERETOFORE DENIED THEM. THIS HAS OBVIOUS IMPLICATIONS FOR NOT ONLY U.S. EXPORT SALES, BUT ALSO THE BUSINESS OF FINANCIAL INSTITUTIONS. TO THE EXTENT THAT THE IMPORTER IS WILLING AND ABLE TO USE THIS PROCEDURE EXPORT SALES WILL BE ENCOURAGED. HE WILL SAVE BOTH THE OPPORTUNITY COSTS OF MONEY DEPOSITED WITH THE CENTRAL BANK FOR SIX MONTHS IN BRAZIL AND THE COSTS OF THE HIGHER RATES OF INTEREST PREVAILING HERE. ON THE OTHER HAND, HE WILL HAVE TO ACCEPT LONGER TERM FINANCING IN THE UNITED STATES AND THE FOUR PERCENT GUARANTEE FEE. AND HE WILL STILL BE SUBJECT TO THE UNKNOWN OF THE EXCHANGE RATE FLUCTUATIONS AT THE END OF THE 370 DAYS WHEN HE HAS TO REMIT BOTH PRINCIPAL AND INTEREST TO THE UNITED STATES PLUS THE TWENTY FIVE PERCENT BRAZILIAN WITHHOLDING TAX ON INTEREST PAID.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SALES, CENTRAL BANK, TRADE FAIRS, MECANICA 75, LOANS, RESOLUTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SAOPA01606
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750269-1023
From: SAO PAULO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750884/aaaacwtp.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 SAO PAULO 1565, 75 BRASILIA 5970
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <26 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MECANICA '75 - EXPORT FINANCING UNDER BRAZILIAN CENTRAL BANK RESOLUTION 331
TAGS: EFIN, BR
To: COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006